

THE DEBATE OVER FALLING LABOR FORCE PARTICIPATION

A national loss of 3 million workers—is it the aging baby boomers or are job seekers abandoning their search?

The percentage of the working age population (16 and older) that is either working or looking for work (the labor force participation rate) has fallen sharply during the recent recession, both here in Utah and in the United States. Past recessions have had rising unemployment and corresponding job losses, but none have been accompanied by the amount of labor force participation decline like this recession. Is the drop in participation a problem for the economy going forward?

Questions about why participation dropped and whether it is a permanent (structural) or temporary (cyclical) decline is under debate throughout the nation. A structural problem is not as worrisome as a cyclical one, and professional journals and the blogosphere are alive with discussion.

Interest in the topic comes from a national loss of 3 million workers. Some argue that the loss is natural — that it is nothing more than the aging of the baby boomer generation. The timing of the recession was such that it occurred right when this structural decline would have developed anyway.

The counter-argument is that if this is not the driving factor, then declining participation is largely made up of frustrated job seekers




abandoning their search. If that is the case, then the implications are twofold: the labor market may be weaker than the published unemployment rate suggests, and if unemployed workers are giving up on finding a job, they could drift so far from the labor force that they are unlikely to return, even when hiring improves. This counter-argument predicts a more negative impact on the future state of the economy than the former, as retirements are usually planned for.

The decline at the national level is probably a combination of both causes. The national participation rate has been inching downward

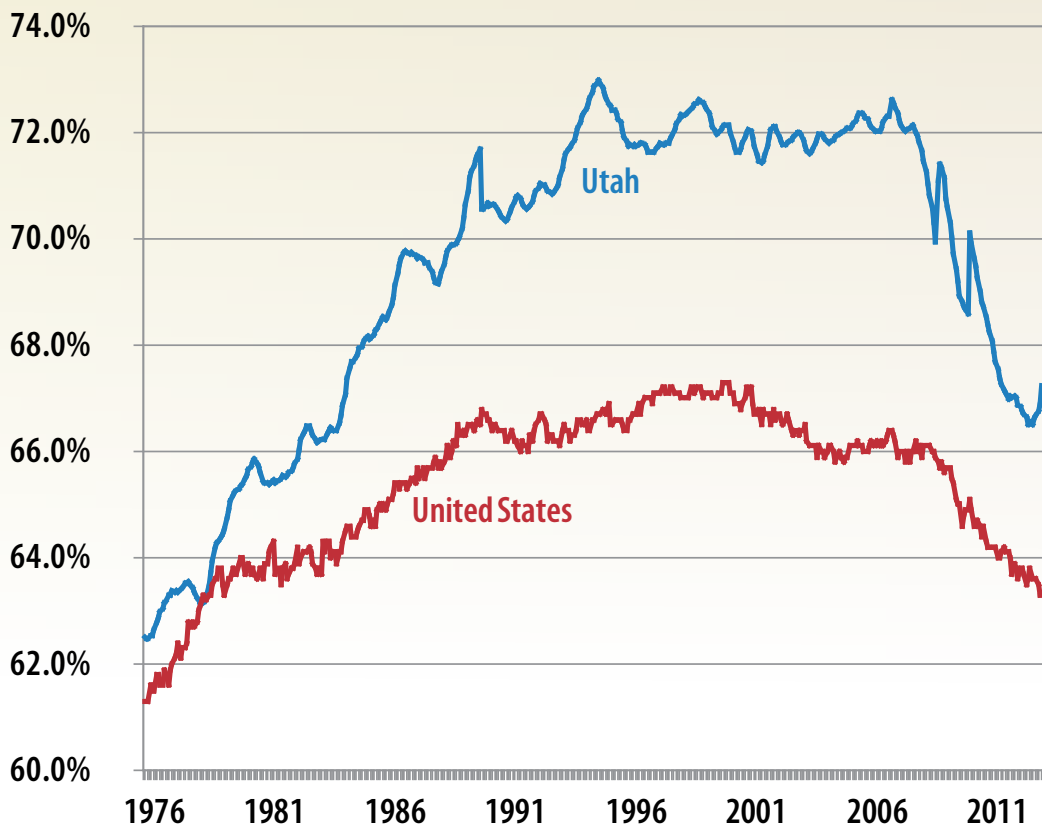
since the late 1990s, suggesting something structural. While the recession accelerated that pace, the national decline still appears more structural than cyclical.

The case in Utah may be different, though, as participation decline appears to be more cyclical. Utah's labor force is much younger than that of the nation, so it does not experience the same proportional influence by the baby boom retirement phenomenon. Utah's participation rate had not fallen at all prior to this recession, but only declined when the recession hit and did so at a higher rate than the nation (72 percent to

66 percent for Utah compared to 66 percent to 63 percent for the nation). Also, recessionary layoffs tend to hit young workers more heavily than older workers. Utah's participation rate, unlike the nation's, has bottomed out and is rebounding, pointing more to a cyclical recession issue than a baby boom issue.

In Utah, lower participation could be economically problematic in the future, but the rate seems to be on the rebound. Nationally, however, the declining rate has more to do with an aging labor force settling into retirement, and it not cause for great alarm. 

DECLINING LABOR FORCE PARTICIPATION RATES UNITED STATES & UTAH



Source: U.S. Bureau of Labor Statistics